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## Mexico

### Tobacco and Products

## Annual Report

2004

**Approved by:**

William L. Brant

U.S. Embassy Mexico City

**Prepared by:**

Sal Trejo/Marco Arceo

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**Report Highlights:**

Mexico's production of tobacco leaf, mostly burley and flue-cured, are forecast to increase due to increased planted area and industry stock building requirements.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Mexico [MX1]  
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## Executive Summary

**Tobacco Situation and Outlook:** Planted area and production of tobacco leaf, mostly burley and flue-cured, are forecast to increase in MY 2004 as a result of stock building requirements and increased exports of burley and flue-cured tobaccos. Production of flue-cured tobacco destined for usage in the domestic market in MY 2003 is revised upward from the previous MY 2003 estimate, due to increased planted area and the cigarette industry's stock building requirements. Mexican cigarette companies will continue to buy domestic and imported burley. Flue-cured production for MY 2004 is forecast upward from the previous year, due to increased planted area. For the MY 2003 harvest, the estimate of flue-cured tobacco leaf planted area is revised upward from our previous MY 2003 estimate, due to stock building requirements. According to industry sources, however, the current economic situation threatens to decrease consumer's purchasing power that could lead to stagnant domestic tobacco leaf consumption during the first half of 2004. Smokers continue to shift from high- and medium-priced cigarettes to low-priced cigarettes that use light air-cured and low quality flue-cured tobaccos.

Burley exports for MY 2004 are forecast upward from the previous year's revised estimate, due to prior commitments with international buyers. An expected increase in consumption by cigarette manufacturers will likely result in increased import needs for MY 2004, particularly for flue-cured tobacco.

**Cigarette Situation and Outlook:** Production and consumption of cigarettes in MY 2004 are forecast to remain unchanged from the previous year's estimate, due to advertisement restrictions, health concerns and higher prices. Mexican cigarette exports are forecast to remain unchanged in MY 2004. Reportedly, exports of both low-priced domestic brands and non-branded cigarettes go to the U.S. and to Eastern European countries. Cigarette imports continued to be negligible in MY 2003. Reportedly, imports of contraband cigarettes, mostly from the U.S., especially into central and southern Mexico, are negligible. Nevertheless, they continue to flow in moderate quantities into Mexico's northern border towns.

## Production

Burley production for MY 2004 is forecast upward from the previous year's estimate, due to increased area planted and an expected increase in exports. Production in MY 2004 for flue-cured tobacco is forecast to increase by 21 percent from the previous year's estimate, due to increased planted area. Total tobacco production for MY 2004 is forecast upward from the previous year's estimate by 15.2 percent, due to increased area planted.

Planted area covered by forward contracts for MY 2004 has been revised upward from the previous estimate for a total of 12,272 hectares, due mainly to increased financing provided by foreign buyers to produce burley for export. As a result of the negotiations between burley growers and buyers, both parties contracted for 10,828 hectares in Nayarit for the MY 2003 harvest.

Domestic cigarette companies report that the MY 2004 output level is forecast to remain unchanged from the previous year's estimate, due to health concerns of the population. Because of these health concerns, many smokers, ironically, are switching from non-filtered to filter cigarettes believing there is a lesser degree of health deterioration in filter tip cigarettes.

## Consumption

For MY 2004, consumption of overall tobacco leaf remains unchanged from the previous year's estimate as smokers who have quit are being replaced by new and younger smokers at a steady replacement rate. Burley consumption for MY 2004 is forecast to increase slightly over the previous year because of the expected increase in exports.

For MY 2003, cigarette companies reported more consumption of low-and mid-priced cigarettes at the expense of high-priced cigarettes because of retail price increases. As a result, manufacturers report an increase of light air-cured and low quality flue-cured tobacco utilization in 2003 at the expense of higher-priced burley and certain grades of flue-cured tobacco. MY 2003 cigarette consumption remains essentially unchanged from MY 2002, with less than a 1-percent decrease. According to industry sources, new younger smokers are replacing those who have decided to quit because of health concerns and government advertisement restrictions.

## Trade

As a result of cigarette companies' lower beginning stock levels, tobacco leaf imports for MY 2004 are forecast upward from the previous year's revised estimate. Main imports will likely include burley, flue-cured, oriental and, to a lesser extent, dark air-cured.

Post forecasts MY 2004 unmanufactured burley tobacco exports to increase from the previous year's revised estimate, due to the number of forward contracts with foreign buyers. Also, an increase in the numbers of foreign buyers' forward contracts with burley growers contributed to an increase in planted area -- from 7,431 hectares in MY 2003 to a forecast of 8,348 hectares for the MY 2004 harvest.

Mexican cigarette exports are forecast to remain unchanged in MY 2004. Processors report exports of both low-priced domestic brands and non-branded cigarettes mostly to the U.S. and Eastern European countries.

Cigarette imports continued to be negligible in MY 2003. Reportedly, as a result of competitive prices for domestic cigarettes, imports of contraband cigarettes, mostly from the United States, into central and southern Mexico are negligible. Nevertheless, contraband cigarettes from the United States continue to enter Mexico's border towns in moderate quantities.

## Stocks

Cigarette companies expect to have slightly lower ending stock levels of burley in MY 2004, in comparison to MY 2003, due to the expected increase in domestic consumption and exports. Ending burley stocks for MY 2003 have been revised upward from our previous estimate, due to increased imports required for industry's stock building requirements. Due to increased imports of flue-cured tobaccos, ending stocks have been revised upward in MY 2003. For MY 2004, ending stocks of flue-cured tobacco are forecast upward compared to the previous year's revised estimate, due to increased production and imports. Leading cigarette companies generally keep between 18-20 months supply of tobacco leaf, particularly burley, flue-cured and light air-cured.

## Policy

In 2003, the GOM reached an agreement with the tobacco industry to ban all radio and TV cigarette advertisements. The Health Secretariat (HS) said the surgeon's warning on the

serious health hazards of smoking continues to appear on the reverse side of cigarette packs. HS hailed the communications networks for showing solidarity with the agreement. Television advertisements account for much of the networks' incomes, yet they have put health interests above their own financial interests. The agreement also limits cigarette advertisements in the printed media and billboards.

**SECTION II. STATISTICAL TABLES****PS&D Tobacco (Burley)**

(Hectares) (Metric Tons)

<b>PS&amp;D Table</b>						
<b>Country:</b>	<b>Mexico</b>					
<b>Commodity:</b>	<b>Tobacco, Unmfg., Burley</b>					
	<b>Revised 2002</b>		<b>Preliminary 2003</b>		<b>Forecast 2004</b>	
	Old	New	Old	New	Old	New
Market Year Begin	<b>01/2002</b>		<b>01/2003</b>		<b>01/2004</b>	
Area Planted	6881	6881	7431	7431	0	8348
Beginning Stocks	17024	17024	11117	11117	0	11175
Farm Sales Weight Prod	13892	13892	15349	15349	0	17206
Dry Weight Production	10941	10941	12400	12400	0	13076
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
Total Imports	0	0	0	3728	0	4224
<b>TOTAL SUPPLY</b>	27965	27965	23517	27245	0	28417
Exports	4348	4348	3920	3570	0	4900
Dom. Leaf Consumption	12500	12500	12500	12500	0	12550
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consum.	0	0	0	0	0	0
Total Dom. Consum.	12500	12500	12500	12500	0	12550
Total Disappearance	16848	16848	16420	16070	0	17450
Ending Stocks	11117	11117	7097	11175	0	10967
<b>TOTAL DISTRIB.</b>	27965	27965	23517	27245	0	28417

**PS&D Tobacco (Flue Cured)**

(Hectares) (Metric Tons)

<b>PS&amp;D Table</b>						
<b>Country:</b>	<b>Mexico</b>					
<b>Commodity:</b>	<b>Tobacco, Unmfg., Flue Cured</b>					
	<b>Revised 2002</b>		<b>Preliminary 2003</b>		<b>Forecast 2004</b>	
	Old	New	Old	New	Old	New
Market Year Begin	<b>01/2002</b>		<b>01/2003</b>		<b>01/2004</b>	
Area Planted	2491	2491	1731	1797	0	1959
Beginning Stocks	1654	1654	1129	1129	0	1328
Farm Sales Weight Prod	4350	4350	3265	3265	0	4125
Dry Weight Production	3650	3650	2860	2860	0	3466
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	6825	6825	6836	8339	0	8360
Total Imports	6825	6825	6836	8339	0	8360
<b>TOTAL SUPPLY</b>	12129	12129	10825	12328	0	13154
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	10000	10000	9000	10000	0	10750
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consum.	1000	1000	1000	1000	0	1000
Total Dom. Consum.	11000	11000	10000	11000	0	11750
Total Disappearance	11000	11000	10000	11000	0	11750
Ending Stocks	1129	1129	825	1328	0	1404
<b>TOTAL DISTRIB.</b>	12129	12129	10825	12328	0	13154

**PS&D Tobacco, Unmfg., Total**

(Hectares) (Metric Tons)

<b>PS&amp;D Table</b>						
<b>Country:</b>	<b>Mexico</b>					
<b>Commodity:</b>	<b>Tobacco, Unmfg., Total</b>					
	<b>Revised 2002</b>		<b>Preliminary 2003</b>		<b>Forecast 2004</b>	
	Old	New	Old	New	Old	New
Market Year Begin	<b>01/2002</b>		<b>01/2003</b>		<b>01/2004</b>	
Area Planted	10908	10908	10828	10828	0	12272
Beginning Stocks	58065	58065	37385	37385	0	30919
Farm Sales Weight Prod	22322	22322	22415	22415	0	26017
Dry Weight Production	20870	20870	20880	20880	0	24065
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	14627	14627	15000	16085	0	16100
Total Imports	14627	14627	15000	16085	0	16100
<b>TOTAL SUPPLY</b>	93562	93562	73265	74350	0	71084
Exports	7202	7202	7000	7431	0	8348
Dom. Leaf Consumption	31800	31800	31000	31000	0	31000
U.S. Leaf Dom. Consum.	11175	11175	0	0	0	0
Other Foreign Consum.	6000	6000	5000	5000	0	5000
Total Dom. Consum.	48975	48975	36000	36000	0	36000
Total Disappearance	56177	56177	43000	43431	0	44348
Ending Stocks	37385	37385	30265	30919	0	26736
<b>TOTAL DISTRIB.</b>	93562	93562	73265	74350	0	71084



**PS&D Tobacco (Cigarettes)**

(1,000,000 Pieces)

<b>PS&amp;D Table</b>						
<b>Country:</b>	<b>Mexico</b>					
<b>Commodity:</b>	<b>Tobacco, Cigarettes</b>					
Market Year Begin	<b>Revised 2002</b>		<b>Preliminary 2003</b>		<b>Forecast 2004</b>	
	Old	New	Old	New	Old	New
	<b>01/2002</b>		<b>01/2003</b>		<b>01/2004</b>	
Filter Production	32100	32100	32050	32050	0	32050
Non-Filter Production	14800	14800	14800	14800	0	14800
Total Production	46900	46900	46850	46850	0	46850
Imports	0	0	0	0	0	0
TOTAL SUPPLY	46900	46900	46850	46850	0	46850
Exports	20	20	20	20	0	20
Domestic Consumption	46880	46880	46830	46830	0	46830
<b>TOTAL DISTRIB.</b>	46900	46900	46850	46850	0	46850

Tobacco Leaf Grower Prices in Nayarit for 2003/04 Tobacco Leaf Burley Semi-Shade & Stalk Cut (Pesos per Kilogram)					
Grades		Nayarit Dry Season	Grades		Nayarit Rainy Season
	X1	20.144		X1	19.663
	X2	18.729		X2	18.727
	X3	18.409		X3	17.227
	X4	13.132		X4	13.786
	C1	21.676		C1	21.162
	C2	19.666		C2	19.663
	C3	16.055		C3	16.856
	C4	13.376		C4	14.043
	B1	23.597		B1	23.033
	B2	20.977		B2	20.974
	B3	17.302		B3	18.165
	B4	14.012		B4	14.711
	T1	19.755		T1	19.288
	T2	18.729		T2	18.726
	T3	16.233		T3	17.042
	T4	11.589		T4	12.167
	SC	6.993		SC	7.341

Source: CIGATAM and La Moderna

Exchange rate: U.S. \$1.00 = \$11.15 Pesos as of March 5, 2004

Tobacco Leaf Grower Prices per Grade Tobacco Leaf Flue Cured, (Green Basis) for 2003/04 (Pesos per Kilogram)				
	Nayarit	Nayarit		Veracruz
Grades	Dry Season	Rainy Season	Grades	
X1	25.269	25.269	X1	24.808
X2	23.289	23.289	X2	22.289
X3	14.961	14.961	X3	15.709
C1	27.914	27.914	C1	27.391
C2	25.491	25.491	C2	25.491
C3	16.285	16.285	C3	17.100
B1	28.348	28.348	B1	27.814
B2	25.614	25.614	B2	25.614
B3	15.613	15.613	B3	16.394
T1	27.159	27.159	T1	26.650
T2	24.332	24.332	T2	24.332
T3	14.299	14.299	T3	15.014
Sc	8.574	8.574	Sc	9.003
Avg.	23.173	23.173	Avg.	23.173

Source: CIGATAM and La Moderna Exchange rate: U.S.\$1.00 = \$11.15 Pesos as of March 5, 2004

<b>Burley Planted Area Under Forward Contracts for 02/03 and 03/04</b> (Hectares)						
For Domestic Consumption						
Company	Semi-Shade Burley		Stalk Cut Burley		Total Burley	
	02/03	03/04	02/03	03/04	02/03	03/04
CIGATAM	0	0	1,283	1,070	1,283	1,070
LA MODERNA	542	1,624	2,036	754	2,578	2,378
(BAT)	542	1,624	3,319	1,824	3,861	3,448
Subtotal						
For Export						
DIMON	1,750	2,800	0	0	1,750	2,800
TPN	1,820	2,100	0	0	1,820	2,100
Subtotal	3,570	4,900	0	0	3,570	4,900
Grand Total	4,112	6,524	3,319	1,824	7,431	8,348

Source: CIGATAM and La Moderna

<b>Flue Cured Planted Area Under Forward Contract for 02/03- 03/04</b> (Hectares)		
Company	02/03	03/04
CIGATAM	1,058	1,248
LA MODERNA	673	711
Total	1,731	1,959

Source: CIGATAM and La Moderna

<b>Total Area and Tobacco Production</b>				
Type of Tobacco	Area (Ha.)		Production (MT)	
	02/03	03/04	02/03	03/04
Flue Cured	1,797	1,959	3,265	4,125
Burley	7,431	8,348	15,349	17,206
Light Air Cured	1,502	1,866	3,552	4,495
Dark Air Cured	99	99	248	245
TOTAL	10,828	12,272	22,415	26,071

Source: CIGATAM and La Moderna

## Trade Matrices

TOBACCO					H.S. 2401.10 & 2401.20					UNITS: Metric Tons				
EXPORTS TO:	2002		2003		IMPORT S	2002		2003						
	Val.	Vol.	Val.	Vol.		Val.	Vol.	Val.	Vol.					
U.S.	30,559,412	7,046	24,272.937	5,764	U.S.	0	0	760.454	154					
OTHER					OTHER									
Honduras	65,137	7	224.864	118	Brazil	20,574,416	7,590	24,590.216	9,768					
Deamark	0	0	508,296	109	Chile	0	0	4,265.883	1,565					
Spain	0	0	660,444	49										
Total of other	242,701	37	1,393.604	276	Total of other	20,574.416	9,122	28,856.099	11,33					
Others not listed	1,183,422	118	1,566.221	228	Others not listed	19,640.515	5,505	20,844.193	5,812					
GRAND TOTAL	31,985,535	7,201	27,232.762	6,268	GRAND TOTAL	40,214,931	14,627	50,460.746	17,299					

Source: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, November 2003.

CIGARETTES					H.S. 2402					UNITS: Metric Tons				
EXPORTS	2002		2003		IMPORTS	2002		2003						
	Val.	Vol.	Val.	Vol.		Val.	Vol.	Val.	Vol.					
U.S.	418,311	33	4,513	0	U.S.	2,731,326	131	1,662.285	213					
OTHER								OTHER						
Non-declared Countries	0	0	130.844	1	Switzerland	1,458,332	53	2,163.879	74					
United Arab Emirates	82,600	18	0	0	Cuba	29.862	6	93.539	19					
Total of other	82,600	18	130.844	1	Total of other	2,004,012	79	2,257.418	93					
Others not listed	85,921	15	665	1	Others not listed	884,038	44	1,218.943	55					
GRAND TOTAL	586,832	66	136,022	2	GRAND TOTAL	5,619,376	254	5,138.646	361					

Source: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, November 2003.

<b>Mexican Cigarette Prices Domestic Market</b> Price per Pack (Mexican Pesos)			
<u>CIGATAM BRANDS</u>	<u>Price</u>	<u>LA MODERNA BRANDS</u>	<u>Price</u>
Benson & Hedges Ment, 100	17.00	Viceroy Gold 100 (5 Caj,)	17.00
Benson & Hedges 100	17.00	Viceroy Gold 100 L y M (5 Caj,)	17.00
Marlboro C,S,100	17.00	Kent Blue, Gold and Silver	17.00
Marlboro Lights C,S,85	16.00	Viceroy C,S, Y C,D,	16.00
Marlboro E,L, 85	16.00	Salem C,S, y C,D,	16.00
Marlboro 14 F,T,	11.50	Camel C,D, Y LIGHTS C,S,	16.00
L&M Regular C,S & F,T,	13.00	Raleigh F,T,	15.00
L&M Lights C,S, & FT	13.00	Montana FF C,S, & C,D,	13.00
Broadway Lights C,S & F,T,	13.00	Montana Lights C,D, Y C,S,	13.00
Broadway Regular C,S, & F,T,	13.00	Fiesta C,S	13.00
Broadway Lights 14 C,S, & F,T,	9.50	GOL 70 C.S	11.00
Lider SP 20	11.00	Boots C,D, Y C,S,	13.00
Delicados Oscuros F,T,	8.00	Boots LIGHTS C,D, Y C,S,	13.00
Elegantes Mentolados	8.00	Alas Extra	8.00
Elegantes Regular	8.00	Pacifico Ovalados	8.00
Delicados Ovalados	8.00	Argentinos	8.00
Tigres Ment, F,T,	7.00	Alas	8.00
Tigres F,T,	7.00	Gratos	8.00
Tigres	7.00	Embajadores C,B C,S, Y C,D	8.00
Faros Ovalados	7.00	Bohemios	7.00
		Alitas	7.00

Source: Cigatam, S.A. de C.V.